



# Banking Risks 2016

KPMG presents our view of the top risk by value driver faced by corporates in the Banking sector



**Global**

---

**October 2016**

# 2016 Risks for Banking

Emergence of fast evolving digital technologies, increased regulatory pressure and global economic uncertainty are key factors in the current risks landscape. KPMG Risk Consulting assists clients to develop robust risk mitigation methods by interpreting the underlying drivers of global risks.



## Strategy

- Risk of adverse changes in the equity markets as banks make and manage direct equity investments.
- Significant and intense globalised competition in the rapidly evolving financial services industry.
- Risk resulting from ineffective business decisions and failure to respond to changes in the environment (including business cycles, changing customer preferences, product obsolescence and technology developments).



## Technology

- Competition and disruption emerging from new fintech firms which develop new services and products based on innovative technologies including cloud, big data analytics, internet of things and digital payments processes.
- IT risks relating to malfunction or disruption in the operation of the systems, or a security breach, could adversely impact the Bank/company's ability to compete.



## Reputation and Ethics

- The reputational risk to a bank's business, earnings and capital from negative public opinion, is inherent in the business and has increased substantially because of the financial crisis and the size and profile of the financial services industry.



## Growth

- **Macroeconomic uncertainty in key markets from factors such as the UK's vote to leave the EU (Brexit), economic recession in Brazil and Russia and slowdown in China could hamper growth in some markets**
- **The increase in competition from shadow banking practices to provide pressure on the net interest margin of the banks.**
- Expanding international operations leading to risks due to non-compliance with various regulations, economical and political developments, discriminatory fiscal policies etc.
- Acquisitions could reduce a bank's earnings if it overpays or has difficulty integrating operations.



## Profitability and liquidity

- Risks relating to models and assumptions in areas such as capital calculations and stress testing
- Credit risk from failure of customers or counterparties to meet their financial or contractual obligations when due.
- Adverse changes in credit ratings could have a material effect on liquidity, cash flows, financial results and customer confidence.
- Liquidity risk, that a bank may be unable to raise funds on a timely basis or at a reasonable cost to fund asset growth or settle liabilities.
- The increase in market risk, due to adverse changes in market risk factors such as interest rates, credit spreads, foreign exchange rates, equity prices, commodity prices, mortgage rates and mortgage liquidity.
- Turbulence or disruption in the capital or financial markets, diminish investor demand for mortgage loans and reducing the availability of funding.



## People

- Inability to attract and retain qualified personnel while appropriately managing costs related to employee benefits.



## Operational Excellence

- Operational risk resulting from inadequate or failed internal processes and systems impacting the operations of the business.



## Compliance

- Regulatory capital risk due to increasing stringency of banking regulations post financial crisis, which could require a bank having sufficient capital resources to meet its capital adequacy requirements.
- Fraud, violations of the laws tariff/policies and cross-border legislations.
- Conduct risks due to potential detrimental practices in foreign exchanges, violations of trade sanctions and customer related business such as redress from payment protection insurance.



## Health, Safety and Environment

- Increasingly rigorous environmental, health and safety laws and regulations by government.

### Legend

- Emerging Risk
- Existing Risk
- Retiring Risk

### Contact us:

**Ashley Smith**

Internal Audit, Risk & Compliance Services  
Practice leader for Europe, Middle-East & Africa (EMA)

T +27 (0)82 719 2392

E [ashley.smith@kpmg.co.za](mailto:ashley.smith@kpmg.co.za)